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DEPT FOR NEA/MAG, EB/IFD/OIA and EB/TPP/BTA
STATE PLEASE PASS TO USTR SHAUN DONNELLY, PAUL BURKHEAD, AND MARY
LATIMER
USDOC FOR ITA/MAC/ONE ROTH
TREASURY FOR OASIA
USDA FOR FAS CHUCK BERTSCH AND BOB MACKE

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SUBJECT: SCENESETTER FOR U.S.-MOROCCO FTA JT COMMITTEE

11. (U) The U.S. Mission welcomes the U.S. delegation to the FTA Joint Committee meeting. The FTA, together with the recently signed USD 697 million Millennium Challenge Account (MCA) Compact, is one of our two most visible bilateral accords. Although Morocco has embraced trade liberalization, you will find a country that is increasingly debating whether this policy has benefited its trade partners more than Morocco itself. Critics point particularly to agreements with the U.S., Turkey, and the Arab States as examples where trade is more imbalanced than it is with the European Union.

General Background

12. (SBU) We had anticipated this debate would lead Morocco to prefer to treat the joint committee meeting more as a technical "in-house" exchange between experts than an opportunity to highlight the agreement publicly. Nonetheless, your hosts are preparing a joint press conference and an outreach session with business associations. These two events are scheduled for Friday, March 14 in Casablanca. The Joint Committee meeting itself is scheduled for the afternoon of Thursday, March 13 in Rabat.

13. (SBU) Recently installed Minister of External Commerce Abdellatif Maazouz, who previously served as the Directeur General of the Maison de l'artisan, will head the Moroccan delegation. Maazouz's Ministry was previously only a supporting player on bilateral trade policy. In his initial public interviews, Maazouz has highlighted several broad priorities for his Ministry: operationalizing Morocco's free trade agreements; developing and effectively publicizing a "Made in Morocco" logo and image that attracts international customers; elaborating a national export strategy that includes reorganizing the Ministry; simplifying export procedures; and ensuring Morocco is in conformity with its international obligations.

Growth in Trade

14. (U) The primary purpose of the Joint Committee, of course, is to review developments in bilateral trade, and we believe we have a

very positive story to tell. After a decade in which trade remained stagnant at around a billion USD per year, trade nearly doubled in the two years since the agreement entered into force. Public criticism stems from the fact that while Morocco's exports have grown significantly over the period (up 35 percent), American exports have exploded, increasing by over 150 percent.

¶5. (U) As you know, we confront the added complication of clashing statistics. The underlying imbalance is even starker in Moroccan figures, as is evident below.

	MOROCCAN FIGURES	U.S. FIGURES
Exports from Morocco to the U.S.:		
2005	USD 290.7 Million	445.8 Million
2006	USD 234.3 Million (-19pct)	521.4 Million
2007	USD 349.7 Million (+49pct)	609.9 Million
Exports from the U.S. to Morocco:		
2005	USD 700.0 Million	525.0 Million
2006	USD 1019.5 Million (+46pct)	878.4 Million
2007	USD 1916.6 Million (+88pct)	1343.0 Million

¶6. (U) If questioned about this imbalance, we recommend accentuating those areas where Morocco has enjoyed success, such as textiles, as well as pointing out the macro factors that have contributed to the imbalance. Textiles, one of the key industries targeted by the government, has seen a 43 percent rise in exports to the U.S. Additionally, while the FTA has certainly had an impact on our bilateral trade, so too has a booming Moroccan economy, a depressed dollar, and a very disappointing 2007 Moroccan grain harvest.

¶7. (U) Regarding the statistical disparity itself, with the support of the Commercial Law Development Program (CLDP), the Foreign Trade Division of the U.S. Census Bureau agreed to a merchandise trade reconciliation study with Morocco. Post believes the study will find that a large portion of the disparity stems from transshipment of Moroccan exports through Europe. However, the initial exchange of information in the study has just begun, and final conclusions will not be available for some time.

Moroccan Frustration at Gaining U.S. Market Access

¶8. (SBU) Chief among the issues that Morocco is likely to bring to the table is its frustration over securing the certificates necessary to permit it to ship some agricultural products to the United States. In an October 2007 meeting, the Animal and Plant Health Inspection Service (APHIS) advised Morocco that it had all the information that was needed on this issue and that the process had entered an internal review. Morocco will at the very least look for an update on the situation. It has asked for a private meeting with Agricultural Minister Aziz Akhannouch, which we suspect is intended to push the issue.

No Movement on Transshipment

¶9. (SBU) Since implementation, Moroccan interpretation of permissible transshipment under the FTA's rules of origin has denied preferential treatment for some U.S. originating goods. Moroccan customs officials continue to insist that transshipments from a third country must be preceded by an order (as reflected in an invoice or bill of lading) from a Moroccan customer before departing the U.S. This restrictive interpretation effectively prevents U.S. companies from pre-staging U.S. originating goods in Europe, prior to receiving an order from a Moroccan customer. Morocco's stance on this issue was explained in a response to AUSTR Donnelley's letter and during a February 29 DVC. During the DVC, the Moroccans compared the specific language included in the U.S.-Jordan FTA against the corresponding language found in the U.S.-Moroccan FTA. In short, the Moroccans understand our position and our desired interpretation, but insist it is neither what was negotiated nor what was written into the agreement. Given this firm Moroccan stance, our only recourse is to treat Moroccan goods in the same manner when they arrive in the U.S. via Europe, with the hope that

this will ultimately induce the Moroccans to display greater flexibility in future.

Wheat Quotas Removed

¶10. (SBU) Although the FTA created provisions for U.S. wheat producers to benefit from new tariff-rate quotas (TRQs) on durum and common wheat, they went unfulfilled in 2006. In 2007, as a result of the country's extremely poor harvest (down 81 percent from 2006), the government eliminated tariffs on all imported wheat through May 31, 2008, effectively rendering the quotas meaningless. The GOM has suggested that implementation difficulties during the first year of the FTA were related to the incompatibility between the calendar year TRQ and the local marketing year. When Moroccan grain production returns to normal levels in 2008, implementation issues will likely resurface.

RILEY

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